

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 CCO-00 /026 W

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O 160909Z DEC 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC NIACT IMMEDIATE 4777

S E C R E T TEHRAN 12152

EXDIS

DEPARTMENT PLEASE PASS TO SECRETARY AND SECDEF

E.O. 11652: GDS

TAGS: MASS, IR

SUBJECT: SHARP GOI REACTION TO RISING COSTS OF DEFENSE  
EQUIPMENT

REF: TEHRAN 12136(DTG 151700Z DEC 75)

1. IN MEETING DECEMBER 16, GENERAL TOUFANIAN COVERED MUCH THE SAME GROUND AS IN HIS CONVERSATION WITH DEFREP PREVIOUS EVENING. ADDITIONAL DETAILS FOLLOW. MAIN NEW POINT IS INTRODUCTION OF CONTINGENCY ELEMENT, I.E., IF OIL REVENUES REMAIN LOW, PROJECTS LISTED REFTEL WILL NOT GO FORWARD.

2. TOUFANIAN SAID IT SEEMED EVIDENT THAT STATE AND DOD BELIEVED MINISTRY OF WAR HAD UNLIMITED FUNDS AND WAS NOT SUBJECT TO BUDGETARY CONSTRAINTS. THIS WAS NOT TRUE. \$3 BILLION, WHICH HE HAD ALLOCATED TO U.S. PURCHASES, WOULD ALSO HAVE TO COVER CERTAIN PAYMENTS TO OTHER COUNTRIES. SINCE BEGINNING OF IRANIAN FISCAL YEAR IN MARCH, HE HAD AGREED TO NUMBER OF INCREASED CHARGES (E.G. AIR TRANSPORTATION, AMMUNITION AND SPARE PARTS) WITH EXPECTATION THAT USG WOULD EVENTUALLY BRING COSTS UNDER CONTROL. HOWEVER, DURING PAST 60 DAYS IRAN HAD RECEIVED NOTIFICATION OF MASSIVE \$1 BILLION ESCALATION IN SEVERAL CONTRACT CHARGES.

3. WHEN TOUFANIAN REPORTED TO SHAH ON DECEMBER 15 THAT HE  
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HAD INSUFFICIENT FUNDS TO COVER ALL PLANNED FMS PROGRAMS,

SHAH INDICATED THAT IRANIAN PROJECTS WOULD HAVE TO BE CUT BACK IF OIL REVENUES REMAINED LOWER THAN ANTICIPATED. TOUFANIAN SAID AMERICAN COMPANIES WERE NOT EXPORTING SUFFICIENT OIL FROM IRAN TO PRODUCE REVENUES GOI REQUIRED FOR DEVELOPMENT. IF RPT IF OIL REVENUES DID NOT INCREASE, IRAN WOULD HAVE TO CANCEL OR SCALE DOWN PROGRAMS LISTED REFTEL. TOUFANIAN SUGGESTED THAT PERHAPS USG COULD PREVAIL UPON OIL COMPANIES TO INCREASE EXPORTS FROM IRAN.

4. ALMOST IN AN ASIDE, TOUFANIAN MENTIONED THAT A SOVIET ECONOMIC COMMISSION WOULD BE VISITING IRAN SHORTLY AND THERE WAS SOME PROSPECT THAT "DOOR WOULD BE OPEN" ON DEFENSE SALES. HE DID NOT DWELL ON THIS POINT BUT IN A VERY PERSIAN WASY OBVIOUSLY WISHED US TO ADD IT TO OUR CALCULATIONS.

5. TOURANIAN WAS CLEARLY APPEALING FOR USG HELP IN BRINGING COSTS UNDER CONTROL OR INCREASING OIL REVENUES GOI FEELS THERE IS STRONG MUTUALITY OF INTEREST IN IRANIAN PARTICIPATION IN ALL PROGRAMS NOW SUBJECT TO CANCELLATION. IRANIANS OBVIOUSLY FEEL, FOR EXAMPLE, THAT THEIR PURCHASES OF F-16 AND AWACS AND CONTRIBUTION TO DEVELOPMENT OF AMST WILL BENEFIT U.S. AS WELL AS IRAN. SHAH IS COUNTING ON USG TO BRING RELIEF BY PUTTING SOME KIND OF LID ON DEFENSE COST INFLATION OR HELPING IRAN TO EXPAND OIL EXPORTS.

6. FOREIGN MINISTER KHALATBARY CALLED AMBASSADOR IN MORNING OF DECEMBER 16 TO MAKE MUCH THE SAME POINT. HE SAID THAT U.S. COMPANY OIL LIFTINGS FROM IRAN WERE NOW DOWN TO ABOUT 4 MILLION PLUS BARRELS PER DAY. AT THIS RATE OF LIFTINGS, IRAN'S OIL REVENUE WOULD BE REDUCED BY \$4 BILLION PER CALENDAR YEAR. IF U.S. COMPANIES DO NOT CHANGE THEIR LIFTING PATTERNS, THEN IRAN OBVIOUSLY WILL HAVE TO CUT BACK ON MILITARY AND CIVILIAN PURCHASES FROM THE U.S. HE ASKED SPECIFICALLY WHETHER THE U.S. GOVERNMENT MIGHT NOT CONSIDER INTERVENING WITH U.S. OIL COMPANIES IN THIS MATTER.

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7. COMMENT: IT IS NOT ENTIRELY CLEAR WHAT KHALATBARY HAD IN MIND WHEN HE CITED OIL LIFTING AND REVENUE FIGURES. FOR EXAMPLE, AVERAGE OIL LIFTING IN 1975 ARE RUNNING AT ABOUT 4.9 MILLION BARRELS PER DAY. IF THIS AVERAGE IS MAINTAINED DURING THE NEXT YEAR, WE ESTIMATE THAT REVENUE IN THE NEXT IRANIAN YEAR WILL BE ABOUT \$19.6 BILLION WHICH IS ABOUT \$900 MILLION LESS THAN THE CENTRAL BANK'S ESTIMATE FOR IRANIAN OIL REVENUE IN THE CURRENT YEAR. THEREFORE,

WHEN HE SPOKE OF OIL LIFTING BEING DOWN TO 4 MILLION  
PLUS BARRELS PER DAY, HE MAY HAVE BEEN REFERRING TO  
THE AVERAGE FOR THE MONTH OF OCTOBER AND THE FINANCIAL  
CONSEQUENCES THAT WOULD FLOW FROM MAINTAINING THIS RATE  
OF LIFTINGS THROUGHOUT THE COMING YEAR. IF  
KHALATBARY'S ASSUMPTIONS WERE TO PROVE CORRECT, WE  
ESTIMATE REVENUE WOULD BE ABOUT \$17.35 BILLION NEXT  
IRANIAN YEAR.  
HELMS

NOTE BY OCT: NOT PASSED ABOVE ADDRESSEES.

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